MULTIMEDIA UNIVERSITY®

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 2, 2022/2023

DBM5024 BUSINESS FINANCE

(All Sections/Groups)

14 JULY 2023
9.00 AM – 11.00 AM
(2 hours)

INSTRUCTIONS TO STUDENT

1. This question paper consists of 6 pages with 2 sections.
2. Attempt **ALL** questions in Section A and Section B.
3. Please write all your answers for Section A on the OMR form provided and all answers for Section B in the Answer Booklet provided.
4. The formulae are given in the appendices.

SECTION A: MULTIPLE CHOICE QUESTIONS (20 Marks)

1. Khoo Brokerage Firm specialises in trading various financial products, such as stock shares, bonds, and other financial instruments on behalf of their clients. Khoo Brokerage Firm is considered a _____.
   A. financial institution
   B. international finance firm
   C. personal financing firm
   D. finance consultancy

2. Which of the following is a capital budgeting decision?
   A. How should the company raise funds to pay for their new factory building and machines?
   B. Should the company take on a five-year project to expand their operations to Thailand?
   C. How much inventory should the company keep?
   D. Should the company pay their employees salary on early or end of month?

3. Bella Corporation is a newly start-up corporation and now selling its new shares to the market. This is known as a _____.
   A. market trading
   B. new market
   C. primary market
   D. secondary market

4. Aminah has just made her first RM8,000 contribution to her retirement fund. Her retirement fund provides an average rate of return of 6 percent annually. Assume that no additional contributions were made by Aminah after that, what will her account be worth in 32 years' time?
   A. RM54,742.72
   B. RM51,726.09
   C. RM54,724.72
   D. RM51,627.09

5. When we compute the present value of a future cash flow to determine what that cash flow is worth today, it is known as _____.
   A. time valuation
   B. discounted cash flow valuation
   C. compounding interest
   D. computing present value

6. Today, Ms. Kim deposited RM7,000 in a bank account that pays 2.2 percent simple interest. How much interest will Ms. Kim earn over the next 7 years?
   A. RM1,511
   B. RM1,151
   C. RM1,078
   D. RM1,007

Continued...

7. One of the features of common stock that distinct it from preferred stock, is its voting right. Based on statements below, choose the **FALSE** criteria which does not fits with these rights to vote.
   A. Stockholders can elect directors.
   B. Cumulative voting.
   C. Proxy voting.
   D. Multiple voting.

8. Sunny Bee expects that they will pay an annual dividend of RM2.50 per share next year. The company just announced that any future dividends occur will be increasing by 2.2 percent annually. How much is the current value for one share of this stock if Sunny Bee provides a rate of return of 8.5 percent?
   A. RM29.42
   B. RM39.68
   C. RM41.05
   D. RM113.64

9. Below are some conditions under constant growth model, **EXCEPT**:
   A. Dividend expected to grow at g forever.
   B. Expected dividend yield is constant.
   C. Expected capital gains yield is constant and equal to g.
   D. Expected total return, R, must be < g.

10. Mercu Jaya Sdn. Bhd. is considering opening a toy store, which would be a new line of business for the firm. Management has decided to use the cost of capital of a similar toy store as the discount rate to evaluate this proposed expansion. Which one of the following terms describes this evaluation approach?
    A. Market play approach.
    B. Pure play approach.
    C. Subjective approach.
    D. Project approach.

11. Lagenda Manufacturing wants to build a new facility. Which of the following factors most heavily influences the cost of capital for this investment?
    A. The firm's financial assets.
    B. Source of the funds used to build the facility.
    C. The nature of the investment.
    D. The borrowing amount the company plans to apply.

12. What is the cost of equity?
    A. The return that equity investors require on their investment in the firm.
    B. The cost of investing the equity of the firm.
    C. The cost that a firm incurs to finance its operations.
    D. The return that the lenders require on the firm's debt.

Continued...

13. Who will decide the payment of cash dividends to the firm's shareholders?
    A. The board of director.
    B. The shareholders.
    C. The management.
    D. The government.

14. The cash payment made by the firm to its owners in the normal course of business is known as _____.
    A. special dividend
    B. cash dividend
    C. stock dividend
    D. liquidating dividend

15. The company can buy back the shares of its own using the following methods, **EXCEPT**:
    A. open market.
    B. tender offer.
    C. auction market.
    D. targeted repurchase.

16. _____ will increases the numbers of shares outstanding but reduces the share price.
    A. Reverse stock split
    B. Cash distribution
    C. Stock split
    D. Stock repurchase

17. The following are the reasons why liquidity is important to a firm, **EXCEPT**:
    A. speculative motive.
    B. precautionary motive.
    C. strategy motive.
    D. transaction motive.

18. What is float?
    A. The difference between the available balance and the ledger balance.
    B. The difference between market value and book value.
    C. The difference between current assets and current liabilities.
    D. The difference between cash collection and disbursement.

19. The following are the factors that influence the credit period granted to the buyer, **EXCEPT**:
    A. the fixed assets of the firm
    B. customer demand
    C. credit risk
    D. customer type

Continued...

20. Garuda Company purchased goods on credit with terms 2/5, net 30. Garuda Company need to pay in _____ days if the company plans to grab the discount.
    A. 2
    B. 5
    C. 7
    D. 30

(Total: 20 marks)

SECTION B: STRUCTURED QUESTIONS [80 Marks]

QUESTION 1

Lee Convenience Company has the following data:

Items	2021 (RM)	2022 (RM)
Cash	94,100	101,400
Depreciation	18,200	19,600
Net sales	795,000	843,000
Machinery (Net)	158,000	150,100
Tax paid	22,300	25,100
Accounts payable	22,500	37,100
Cost of goods sold	422,000	518,000
Inventory	81,200	85,700
Office equipment (Net)	42,000	39,100
Other costs	31,000	29,400
Motor vehicle (Net)	88,000	141,200
Accounts receivables	32,000	30,800

Compute the followings for Lee Convenience Company for the year 2022:
(a) Earnings before income and tax (EBIT). (2.5 marks)
(b) Operating cash flow of the company. (2 marks)
(c) Net capital spending of the company. (6 marks)

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(d) Changes in the net working capital. (7.5 marks)
(e) Cash flow from assets of the company. (2 marks)

(Total: 20 marks)

QUESTION 2

(a) Minah and Sophia would like to begin saving for retirement. Minah plans to save RM400 a month, starting one month from today, for a period of 25 years. Sophia plans to save RM400 a month, starting today, for 25 years also. Assuming both Minah and Sophia expect to earn an average return of 8 percent on their savings, compute the difference between Minah's savings and Sophia's savings after 25 years. (8 marks)

(b) On January 2022, GM Records just signed a contract with Mr. Abidin, a famous comedian, worth RM3.25 million. The contract calls for the following payment:

2024	RM600,000
2025	RM750,000
2026	RM900,000
2027	RM1 million

Compute the present value of this contract at a discount rate of 10.2 percent. (5 marks)

(c) Suntha is planning to open a savings account. He has surveyed these two banks and obtained the following information:

Suma Bank	17 percent, compounded daily
Mini Bank	16.8 percent, compounded monthly

Which bank will Suntha choose to open his savings account? Why?

(7 marks)

(Total: 20 marks)

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QUESTION 3

Hanna Malikha's company needs RM200,000 to finance the company operation, so that they may continue to run the business. For this purpose, they shall issue bond to their investors to be invested. With regards into this situation, three company found to be interested to invest in Hanna Malikha's business. They shall invest RM100,000, RM60,000 and RM40,000 respectively.

As their Finance Officer, you shall help to proceed with the transaction. Below are some tasks that you need to finalize with:

(a) Assuming the bonds are issued with a 10-year, RM1,000 face value, 6.5 percent coupon bonds on the market, along with a 5 percent Yield to Maturity. Compute the bonds current value. (6 marks)

(b) Is the bond selling at par, discount or premium? Why? (2 marks)

(c) How many units of bonds shall each company invest in Hanna Malikha's bond? (9 marks)

(d) Compute the current yield for Hanna Malikha's bond. (3 marks)

(Total: 20 marks)

QUESTION 4

MilnaCious Bakery is considering opening up a new branch, in Selangor or Melaka. The owner, however, had decided that they may proceed with any of the branch or with both branches to be launch together. The owner therefore had come up with the costs and cash flows for both branch that are planning to be developed in Selangor and Melaka, which are shown in the table below:

Year	0	1	2	3	4
Selangor (RM)	-65,000	25,000	35,000	40,000	50,000
Melaka (RM)	-90,000	35,000	45,000	55,000	70,000

The required rate of return on each branch is 14 percent and the targeted payback period is three years for both states. Based on the information above, compute the followings:

(a) Net Present Value (NPV) for both states. (11 marks)

(b) Payback period for both states. (8 marks)

(c) Based on calculation in (a and b) above, should MilnaCious Bakery launch their new branch in both states? Justify. (1 mark)

(Total: 20 marks)

End of Paper